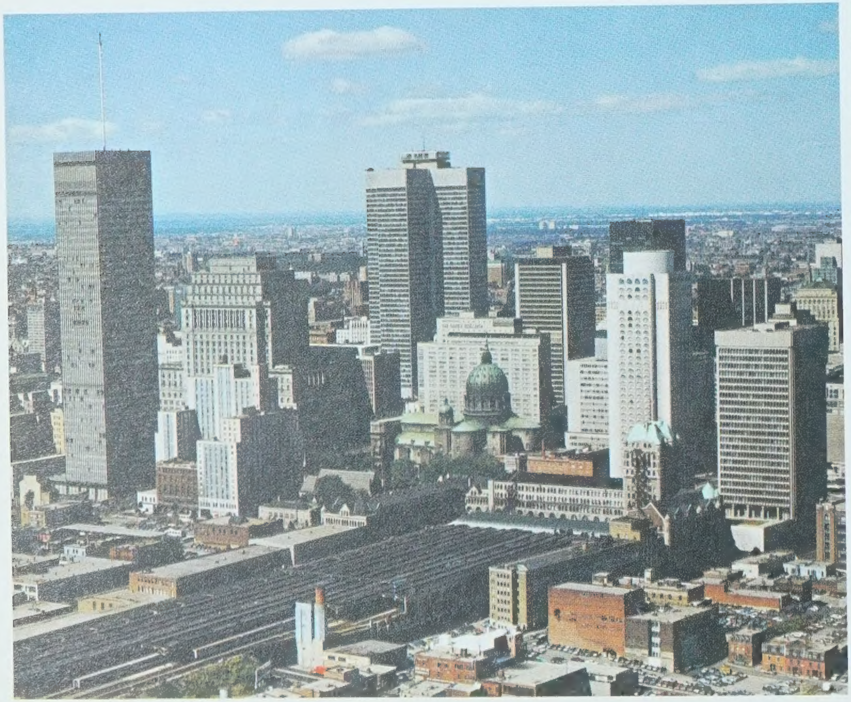
File

NORTHERN AND CENTRAL GAS CORPORATION LIMITED ANNUAL REPORT 1970

Through Canadian Industrial Gas & Oil, petroleum exploration and production programs for the Northern and Central group of companies continue to accelerate.

Major industrial customers of the group's Ontario Division include nickel-copper mines in the Sudbury Basin, centre of the world's largest single source of nickel.



Montreal, growing and thriving, is headquarters for Gaz Métropolitain, inc. and springboard for the group's expansion into eastern Canada.

Winnipeg, central Canada's attractive and prosperous urban hub, is the home of Greater Winnipeg Gas Company.

NORTHERN AND CENTRAL GAS CORPORATION
and its Subsidiaries

RESULTS IN BRIEF

	1970	1969
Sales and other revenues	$172,647,000	$159,018,000
Consolidated net income	$ 14,118,000	$ 12,275,000
Net income applicable to common shares	$ 11,402,000	$ 9,496,000
Basic earnings per common share	88¢	79¢
Dividends paid per common share	60¢	57.5¢
Utility gas sales	186,096 MMCF	167,437 MMCF
Reserves, oil and gas liquids (barrels)	51,672,000	49,746,000
gas (MMCF)	598,200	597,000
Oil and gas properties, gross acres	16,203,991	18,152,342
net acres	11,075,034	12,727,674

CONTENTS

DIRECTORS

E. Ryckman Alexander,
Vice-Chairman of the Board, Gaz Métropolitain, inc.
Montreal, Quebec.

Peter A. Allen,
President, John C. L. Allen Limited
Toronto, Ontario.

* **Edmund C. Bovey,**
President and Chief Executive Officer,
Northern and Central Gas Corporation Limited
Toronto, Ontario.

* **C. Spencer Clark,**
Chairman of the Board
Northern and Central Gas Corporation Limited
Toronto, Ontario.

* **E. Jacques Courtois, Q.C.,**
Chairman of the Board,
Gaz Métropolitain, inc.
Montreal, Quebec.

Robert B. Craddock,
Chairman of the Executive Committee,
Gaz Métropolitain, inc.
Tucker's Town, Bermuda.

* **Peter D. Curry,**
Chairman of the Board, The Investors Group,
Winnipeg, Manitoba.

M. Clifford Deans,
Chairman of the Board,
Bankers Securities of Canada Limited
Toronto, Ontario.

* **Edward A. Galvin,**
President, Canadian Industrial Gas & Oil Ltd.
Calgary, Alberta.

A. Searle Leach,
Chairman of the Board, Federal Grain Limited
Winnipeg, Manitoba.

V. Theodore Low,
Partner, Bear, Stearns & Co.
New York, N.Y.

Donald McKelvie,
President, Northern Telephone Limited
New Liskeard, Ontario.

* **Harold C. F. Mockridge, Q.C.,**
Partner, Osler, Hoskin & Harcourt
Toronto, Ontario.

Blancke Noyes,
Partner, Hornblower & Weeks-Hemphill, Noyes
New York, N.Y.

Theodore O. Peterson,
Chairman of the Board, Investors Mutual of Canada Ltd.
Winnipeg, Manitoba.

* Member of Executive Committee.

OFFICERS

C. Spencer Clark,
Chairman of the Board

Edmund C. Bovey,
President and Chief Executive Officer

Edward A. Galvin,
Executive Vice-President, Production
President, Canadian Industrial Gas & Oil Ltd.

Donald G. Clark,
Executive Vice-President, Utilities

Adolph M. Hove,
Senior Vice-President, Utilities Planning

Timothy G. Sheeres,
Vice-President, Finance & Secretary

Alan Farmer,
Vice-President

John L. L. Orbach,
Vice-President, Overseas

Alick S. G. Duguid,
Treasurer

Mart Pedel,
Assistant Treasurer

Olga Boychuk,
Assistant Secretary

Arthur R. Elliott,
Senior Vice-President, Winnipeg
President, Greater Winnipeg Gas Company

Jean-J. Leroux,
Executive Vice-President, Ontario

Alfred E. Sharp,
Senior Vice-President, Quebec
President, Gaz Métropolitain, inc.

F. Irving Yewman,
Vice-President and General Manager, Ontario

Report to the Shareholders

The year 1970 was one of considerable growth and progress for Northern and Central Gas Corporation Limited.

Basic earnings per common share were 88¢ in 1970, after giving effect to the issuance of an additional 1,325,000 common shares during the year, compared to 79¢ in 1969.

Total revenues were up 9% to $172,647,000. Earnings applicable to common shares increased 20% to $11,402,000, while cash income increased 13% to $34,663,000.

Dividends on common shares increased from 57.5¢ to 60¢ on an annual basis.

Revenue improvement and cost reduction programs assisted in producing these higher figures, particularly during the last quarter of the year. In addition, the favourable weather pattern which prevailed in most of the Company's service areas in late December added to earnings. The contribution to consolidated earnings by Canadian Industrial Gas & Oil Ltd. was higher than in the previous year.

Revenue improvement programs for the utilities included a 4.5% rate increase for Gaz Métropolitain, inc. on October 1 and a 4.8% rate increase for Greater Winnipeg Gas Company, effective December 7. The full effect of the higher rates will be reflected in the results for 1971.

An application was also submitted for a rate increase to the Ontario Energy Board which, if granted, will produce additional annual income of approximately $1.3 million. A decision on this application is expected in the near future.

Progress made by the utilities in re-negotiating gas sales contract prices to levels more in line with current prices of competitive fuels has also improved revenues.

An important revenue gain during 1970 was the development of profitable sales of LNG (liquefied natural gas) to customers in the Northeastern United States. The continuation of this and similar markets is contemplated for at least another two or three years.

The reduction in income taxes from 1969 results from the commencement of oil and gas exploration activities in 1970 by Greater Winnipeg Gas Company and from the increased exploration activities of Trans-Prairie Pipelines, Ltd., acquired by CIGOL in July 1969. Section 83A of the Canadian Income Tax Act is designed to encourage the investment of capital in the exploration for and the development of Canadian resources. Funds so invested may be deducted from income for income tax purposes. It is anticipated that the 1970 level of these activities by these companies will be at least maintained during 1971.

The decrease in depreciation and depletion expense for 1970 is attributable to an abnormally high charge in 1969 for depletion in respect of production subleases which expired in 1969. In other respects, these expenses increased in 1970, reflecting the higher investment in utility and other facilities, and in increased oil and gas production.

Improvement in earnings of Canadian Industrial Gas & Oil Ltd. resulted, in most part, from increased oil deliveries, from higher natural gas sales to industry, increased sales of LPG (liquefied petroleum gas) and higher prices for oil production in December of 1970.

Cost reduction programs have reduced payroll and gas costs. Job specifications and requirements have been adjusted to reflect improved technology and maturity of operations. Besides personnel adjustments, further progress has been made in reducing overhead costs through reductions in administrative space.

Substantial savings have been made in gas costs by improved integration of individual gas supply contracts and higher load factor operation.

Financial position strengthened

At the beginning of 1970, the Company had $75 million of outstanding bank loans and commercial paper. By January 15, 1971, this amount had been completely repaid and the Company had over $10 million in cash and

short term investments.

This significant improvement in the Company's financial position was achieved by:

—the final draw down of $23.5 million (U.S.) on January 15, 1970, from the previously arranged $46 million (U.S.) 8½% first mortgage bond private placement made in 1969;

—$16.9 million (Cdn.) from the sale of 1,325,000 common shares in March, 1970, in the United States;

—the issue of $20 million 9½% subordinated debentures in July;

—the sale of $50 million 9⅝% senior debentures during December, 1970. The proceeds from this last issue were received on January 15, 1971.

No further financing is presently contemplated during 1971.

Utility capital expenditures for 1971 are budgeted at $15 million and will be provided for by cash available from the above mentioned financings. Canadian Industrial Gas & Oil Ltd. plans on capital spending of $20 million in 1971 with funds to be provided from that company's cash flow and bank lines of credit.

As previously reported, the common shares of the Company are now listed on the New York Stock Exchange. The long-term effects of this listing should be significant to the Company, materially improving its ability to raise expansion capital in the years ahead.

A major change in the distribution of the Company's common shares occurred during the year. A shareholder with very large holdings of the Company's stock sold its entire holdings, with the result that Northern and Central's common stock is now more widely held. Consequent to this important change in holdings, Mr. Paul Desmarais, Mr. Peter Thompson, Mr. William Turner, Jr. and Mr. John Yarnell resigned as directors of the Company. Their contribution during the time they served as directors is gratefully acknowledged.

White Paper proposals

In last year's report mention was made of the problem presented to the Company, and especially to its shareholders, by the implications of the White Paper on Tax Reform. During the year, appearances were made before both the Senate and Commons committees established to hear evidence from interested groups. In these appearances, the Company forcefully pointed out the discriminatory treatment which shareholders of public utility companies would experience if changes are not made to the original suggestions in the White Paper. It is to be hoped that this discrimination will be eliminated when legislation is finally presented.

National Energy policy

The National Energy Board's decisions in regard to export policies greatly clarified Canadian natural gas supply and pricing. The findings reflected very closely the proposals made in your Company's brief. We believe the Board has established the guidelines by which Canadians can benefit from the proven advantages of natural gas while, at the same time, continuing to develop a profitable export market for reserves surplus to Canada's domestic needs. Your Company will continue to support the position taken by the Government in its recent decision.

Shareholders are no doubt familiar with the present application for rate increases by the Company's supplier. Since this application could affect earnings, Northern and Central applied at the time of its rate increase applications for the right to pass on such added costs. Two of the three jurisdictions have acknowledged this request without final commitment. We are optimistic that, in the event of an increase, the Company will be able to adjust rates accordingly.

Environmental control

The concern with environmental control is a real one and, in the past year particularly, has become of vital concern to all Canadians. The fact that natural gas can make a major contribution to

the reduction of pollution is, of course, recognized and will undoubtedly contribute to major increases in sales volume and income for natural gas companies. This is important to the Company and its shareholders.

While it is evident that many millions of dollars will be needed to protect and preserve the environment, consideration should be given to the savings to the economy which will result from better environmental control — savings in health, life and materials which could well be greater than the costs. In our view, it is essential that considerably more objective thinking and action be applied to the social and economic problem of pollution.

Ontario Division increases income

The Ontario Division had an excellent year with total revenues up 17% to $59,737,000 and net income up 30% to $4,536,000. While these figures are more satisfactory than last year, this division seeks a rate increase to help maintain its present high standard of essential services and to assist industrial development in those regions of the province served. Substantial investments in facilities, made in prior years, produced improved returns in 1970. Notwithstanding a year of economic uncertainty at the national level, commitments for large scale spending by some of Canada's major resource industries operating in this division's service area have been made.

Consolidation in Gaz Métro

Total revenues were up 7.6% to $50,846,000 while net income decreased to $1,788,000 in 1970. It was a year of consolidation for Gaz Métropolitain, inc. All operations were reviewed late in 1969 and early 1970, resulting in revised policies with regard to capital expenditures, marketing and accounting. Immediate action was taken to implement these policies and, while a degree of favourable effect has been noted in the last quarter of 1970, further improvement will be reflected in 1971. As a result, earnings should be substantially higher than 1970. System maintenance and modernization continued and, together with the changed policies referred to, are building an excellent base to advance the potential for growth in Montreal.

Greater Winnipeg Gas Company invests in oil and gas exploration

Total revenues of Greater Winnipeg Gas Company during 1970 were $28,033,000, up 9%. Net income was up 25% to $3,187,000. A five-million gallon LPG storage tank, the second to date, was completed during the year, doubling the company's peak-shaving capacity.

As noted previously, an important policy decision in 1970 was to diversify this company's activities into gas and oil exploration in Western Canada. This program resulted in participation in two oil discoveries in Alberta early in January, 1971.

With the effect for a full year of the rate increase, plus the continued expansion of the market, 1971 should be a year of progress for Greater Winnipeg Gas.

CIGOL has active year

Canadian Industrial Gas & Oil Ltd. (CIGOL) continued to place strong emphasis on exploration and development.

The company's drilling activities in the Western Canadian sedimentary basin, the Northwest Territories, in the Arctic Islands with Elf Oil Exploration & Production Canada Ltd. and Panarctic, and a 15% interest in a well now drilling in the North Sea, are the highlights for 1970.

During the year, CIGOL and its subsidiaries participated in the drilling of 86 wells of which 24 were completed as oil wells and 15 as gas wells. Since early in 1970, nine wells in which CIGOL has an interest have commenced drilling in the Arctic Islands, two of which are still underway. The company is also managing the explora-

tion investments of Greater Winnipeg Gas Company.

CIGOL's total revenues in 1970 were $33,196,000. Net income increased 5% to $8,643,000 and cash flow also increased 5% to $15,228,000.

Crude oil and natural gas liquid production averaged 8,709 barrels per day, compared to 8,200 per day in 1969. Natural gas production averaged 94.4 MMCF per day, compared to 88.3 MMCF per day in 1969.

The company's net crude oil and natural gas liquids reserves were 51,672,000 barrels and natural gas reserves were 598,200 MMCF at the end of the year.

Total sales of propane and butane in Western Canada were 47,400,000 gallons.

Early in January 1971, the company concluded an agreement to acquire Laurence Oil Co. Ltd. for 185,000 common shares.

Also in 1971, CIGOL purchased the remaining 50% interest in Western Propane Inc. for 100,000 common shares. Western Propane operates in the States of Washington and Oregon and had sales of 24 million U.S. gallons during the year.

Tribute

It is with deep regret that the deaths of Mr. Ralph K. Farris and Mr. John D. Bryce are reported to you. Mr. Farris was one of the founders of the Company; his concept and determination were major contributions to its formation. Mr. Bryce served as a member of the board of directors since 1965; his wide business experience in general, and his extensive knowledge of the Canadian resource industries in particular, were of great value.

Summary

In 1970, Northern and Central was successful in achieving a number of corporate goals in the areas of internal efficiencies and consolidations. In addition, the strengthening of your Company's financial base, the granting of rate increases in two of the three utility service areas and the acceleration of hydrocarbon exploration activity, should have a favourable effect on consolidated earnings in the current year.

Sincere thanks are extended to all employees for their service during 1970 and to all shareholders for their support and interest.

On behalf of the Board,

C. Spencer Clark
Chairman of the Board

Edmund C. Bovey
President and
Chief Executive Officer

March 2, 1971.

ACCOUNTING POLICIES

The principal accounting policies followed by Northern and Central Gas Corporation Limited, and its subsidiaries, are summarized here to facilitate a comprehensive review of the financial statements contained in this report.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries; all inter-company transactions have been eliminated. There were no major acquisitions or dispositions of subsidiaries during the two years ended December 31, 1970, except that, in 1969, Canadian Industrial Gas & Oil Ltd. (CIGOL) acquired Trans-Prairie Pipelines, Ltd. as a result of a share exchange offer. For comparative purposes, the revenues and expenses of Trans-Prairie have been included for the full 1969 year and provision for minority interests reduces this subsidiary's contribution to consolidated net income to the Company's share of its earnings since acquistion.

The excess of consideration given or attributed to the acquisition of shares of subsidiaries in prior years, in excess of underlying book value of those subsidiaries' net assets at dates of acquisition, has been reflected as intangible assets arising from acquisitions. The policy of amortizing this item, through annual charges to retained earnings, was discontinued at the end of 1968.

Earnings per share

Basic earnings per share have been calculated using the weighted monthly average number of common shares and common equivalent shares (options and warrants) outstanding during the year. The calculation of fully diluted earnings per share uses basic earnings per share figures and gives effect on a pro forma basis to the conversion of outstanding convertible preference shares.

Depreciation and depletion

Gas utility facilities

Depreciation is computed on the straight-line method by application of rates varying from 1¼% to 25% of cost to individual classes of depreciable property. The application of these individual rates has been equivalent to an annual composite rate of approximately 2.5%.

Oil and gas exploration and production facilities

Depletion of oil and gas properties is provided on the composite unit-of-production method, based on total estimated recoverable oil and gas reserves, and applied to remaining costs of oil and gas properties. The costs of oil and gas properties include all expenditures related to the exploration for, and development of, oil and gas reserves, whether or not potentially productive. Tangible oil and gas production and related facilities are being depreciated over their estimated useful service lives at rates varying from 3⅓% to 25% of cost. The application of these individual rates has been equivalent to an annual composite rate of approximately 5%.

Income taxes

Gas utilities

The companies claim amounts for income tax purposes in respect of gas utility facilities and deferred expenses which are in excess of the related depreciation and amortization provisions reflected in the accounts. As a result income taxes which would otherwise have been payable have been reduced, before applicable minority interests, by $4,100,000, in 1969, by $4,300,000 in 1970 and $27,800,000 in total to December 31, 1970. Since only the income taxes actually payable are allowed, or have been claimed, for regulatory purposes in setting consumer rates, the companies follow the policy of providing only for such taxes and do not provide for the amounts by which income taxes have been so reduced; the companies' policy is considered appropriate in these circumstances by The Canadian Institute of Chartered Accountants.

Oil and gas exploration and production

For income tax purposes, the companies claim amounts in respect of both oil and gas properties and production facilities which are in excess of the related depletion and depreciation provisions reflected in the accounts. With respect to tangible oil and gas production facilities, it is the companies' policy to provide for the amounts by which income taxes have been reduced to the extent of timing differences between taxable income and reported income, except to the extent that there are other deductions available to reduce taxable income. Management does not believe, however, that it is appropriate to provide for such reductions as they relate to oil and gas properties. Although this view conforms with general oil and gas industry practice, it differs from the tax allocation basis recommended by The Canadian Institute of Chartered Accountants. If such tax allocation basis had been followed for all timing differences, provision for income taxes would have been increased, before applicable minority interests, by $2,100,000 in 1969, $3,800,000 in 1970 and $17,800,000 in total, to December 31, 1970.

Investments

Investments are stated at cost, together with the applicable share of earnings since acquisition of fifty percent owned companies.

Deferred charges

The periods during which deferred charges are amortized are shown in note 5 on page 14.

Effective January 1, 1970, share issue expenses, including those previously deferred, have been charged to paid-in surplus. This change has resulted in a reduction of amortization expense of $108,000 in 1970, with a corresponding increase in consolidated net income.

CONSOLIDATED STATEMENT OF INCOME

for the year ended December 31, 1970
(thousands of dollars)

	1970	1969 Restated (a)
Revenues		
Sales and other revenues	**$172,647**	$159,018
Costs and Expenses		
Gas purchases	**84,142**	75,451
Operations and maintenance	**27,133**	25,416
Depreciation and depletion	**15,450**	15,952
Taxes, other than income taxes	**5,076**	4,761
Interest	**21,674**	18,420
Income taxes (a)	**746**	1,913
	154,221	141,913
Income before minority interests	**18,426**	17,105
Minority interests in subsidiaries		
Preference share dividends	**1,070**	1,127
Common share earnings	**3,238**	3,703
	4,308	4,830
Consolidated Net Income	**14,118**	[illegible]
Dividends on preference shares	**2,716**	2,779
Net Income Applicable to Common Shares	**$ 11,402**	$ 9,496
Earnings per common share (a)		
basic	**88¢**	79¢
fully diluted	**86¢**	78¢

(a) See Accounting Policies on pages 7 and 8.

CONSOLIDATED BALANCE SHEET

December 31, 1970 (thousands of dollars)

Assets

	1970	1969
Current Assets		
Cash and short-term deposits	$ 11,062	$ 4,560
Accounts receivable	25,081	22,991
Unbilled gas sales	4,832	4,860
Inventories, at lower of cost and replacement cost	7,578	6,326
Prepayments, advances and deposits	2,882	3,488
	51,435	42,225
Investments (Note 3)	25,412	20,743
Property, Plant and Equipment (Note 4)		
Cost	520,429	498,729
Accumulated depreciation and depletion	106,872	94,573
	413,557	404,156
Deferred Charges, at amortized cost (Note 5) and (a)	15,209	15,351
Intangible Assets arising from Acquisitions, at amortized cost (a)	40,212	39,468
	$545,825	[illegible]

(a) See Accounting Policies on pages 7 and 8.

Signed on behalf of the Board:

Edmund C. Bovey, *Director*

C. Spencer Clark, *Director*

Liabilities

	1970	1969
Current Liabilities		
Commercial paper (Note 10)	$ 21,575	$ 21,800
Accounts payable and accrued	24,038	28,757
Income and other taxes	1,174	2,830
Current maturities on long-term debt	7,353	[illegible]
Other	1,172	1,277
	55,312	62,352
Bank Loans (Note 10)	27,452	53,530
Long-Term Debt (Notes 6 and 10)	261,566	222,140
Minority Interests in Subsidiaries (Note 7)	50,853	48,781
Total Liabilities	395,183	386,803

Shareholders' Equity

	1970	1969
Capital Stock		
Authorized		
583,596 First preference shares $50 each par value, issuable in series		
1,903,275 Second preference shares $25 each par value, issuable in series		
30,111,690 Common shares without par value		
Issued (Note 8)		
First preference shares		
144,000 $2.60 cumulative first series	7,200	7,352
39,388 $2.70 cumulative second series	1,969	2,015
Second preference shares		
228,075 $1.06 cumulative convertible series A	5,702	6,480
1,311,975 $1.50 cumulative convertible series B	32,799	32,939
13,057,406 Common shares	73,628	56,177
Paid-in Surplus	3,361	7,775
Retained Earnings (Note 9)	25,983	22,402
Total Shareholders' Equity	150,642	135,140
	$545,825	$521,943

To The Shareholders
Northern and Central Gas
Corporation Limited

We have examined the consolidated balance sheet of Northern and Central Gas Corporation Limited and its subsidiaries as at December 31, 1970 and the consolidated statements of income, retained earnings, paid-in surplus and source of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead & Co.
Chartered Accountants

Toronto, Ontario
February 12, 1971

CONSOLIDATED STATEMENT OF SOURCE OF FUNDS FOR NET PROPERTY ADDITIONS

for the year ended December 31, 1970 (thousands of dollars)

	1970			1969
	Gas utilities	Oil and gas exploration and production	Total	Total
Earnings Retained in the Business				
Consolidated net income	$ 8,658	$ 5,460	$ 14,118	$ 12,275
Non-cash items				
Depreciation, depletion, amortization, minority interests, etc.	10,777	9,768	20,545	18,522
Dividends on preference shares	(2,716)		(2,716)	(2,779)
Dividends on common shares	(7,621)		(7,621)	(6,684)
	9,098	15,228	24,326	21,334
Financing				
Issue of long-term debt	45,196	1,961	47,157	28,096 (a)
Issue of common shares for cash	16,886		16,886	888
Increase in minority interest				8,235
Decrease in bank loans	(34,625)	8,547	(26,078)	5,180
Retirement of long-term debt	(6,456)	(1,275)	(7,731)	(7,763)
Redemption of preference shares	(551)		(551)	(213)
Financing expenses	(3,288)		(3,288)	(968)
Acquisition of shares of subsidiary companies — net	(2,062)	(614)	(2,676)	(240)
	15,100	8,619	23,719	33,215
Other Items				
Increase in working capital	(6,465)	(9,785)	(16,250)	27,068
Increase in investments	(224)	(4,445)	(4,669)	(7,176)
Other — net	(320)	(455)	(775)	(1,618)
	(7,009)	(14,685)	(21,694)	18,274
Net Property Additions	$ 17,189	$ 9,162	$ 26,351	$ 72,823 (b)

(a) Includes $3,506,000 long-term debt of subsidiary acquired.
(b) Includes $14,006,000 net property and plant of subsidiaries acquired.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS AND PAID-IN SURPLUS

for the year ended December 31, 1970 (thousands of dollars)

	Retained Earnings		Paid-in Surplus	
	1970	1969	1970	1969
Balance at Beginning of Year	$22,402	$19,586	$7,775	$7,029
Consolidated net income	14,118	12,275		
Profit on sale of shares of subsidiaries				1,833
	36,520	31,861	7,775	8,862
Dividends				
Preference shares	2,716	2,779		
Common shares	7,621	6,684		
Adjustment of investment in CIGOL resulting from issues of additional common shares			(87)	1,087
Share issue expenses (including $2,482,000 related to prior years)			4,501	
Other	200	(4)		
	10,537	9,459	4,414	1,087
Balance at End of Year (Note 9)	$25,983	$22,402	$3,361	$7,775

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 1970

1. Accounting policies

The information on pages 7 and 8 presents a summary of certain accounting policies and is an integral part of these financial statements.

2. Subsidiaries

Sales and other revenues, contribution to consolidated net income (both in thousands of dollars) and percentage ownership held by the Company at year end for each principal subsidiary were:

	1970			1969		
	Sales and other revenues	Contribution to consolidated net income	Ownership	Sales and other revenues	Contribution to consolidated net income	Ownership
Gas utilities						
Greater Winnipeg Gas Company	$28,033	$3,174	99.6%	$25,629	$2,533	99.4%
Gaz Métropolitain, inc.	50,846	782	81.6%	47,241	1,299	73.1%
Oil and gas exploration and production						
CIGOL and subsidiaries	33,196	5,460	66.0%	34,424	5,190	66.7%

3. Investments (in thousands of dollars)

	1970	1969
Gas utilities		
Mortgages receivable	$16,322	$16,261
Other	425	262
	16,747	16,523
Oil and gas exploration and production		
Shares and advances — fifty percent owned companies	1,216	1,255
Other shares (including in 1970 Elf Oil Exploration and Production Canada Ltd. $4,300,000)	7,449	2,965
	8,665	4,220
	$25,412	$20,743

4. Property, plant and equipment (in thousands of dollars)

Description	1970 Cost	1970 Accumulated depreciation and depletion	1970 Net	1969 Net
Gas utilities				
Coke plant	$ 17,096	$ 8,967	$ 8,129	$ 8,169
Gas storage	20,225	884	19,341	18,749
Gas distribution	291,508	32,806	258,702	248,537
Rental equipment	39,373	6,813	32,560	32,704
General plant	15,989	3,955	12,034	12,738
Construction in progress	294	—	294	3,780
Customers' and other contributions	(2,530)	—	(2,530)	(2,272)
	381,955	53,425	328,530	322,405
Oil and gas exploration and production				
Oil and gas properties and equipment	93,042	33,431	59,611	57,303
Pipelines and processing plants	32,958	17,336	15,622	15,984
Propane marketing equipment	12,474	2,680	9,794	8,464
	138,474	53,447	85,027	81,751
	$520,429	$106,872	$413,557	$404,156

NOTES (continued)

5. Deferred charges, at amortized cost (in thousands of dollars)

Description	Basis or period of amortization	1970	1969
Gas utilities			
Long-term debt issue expense	Amortized over term of applicable issue	$ 7,664	[illegible]
Share issue expense	Written off to paid-in surplus in 1970		2,482
Contribution to customers for conversion to natural gas	10 to 20 years	1,600	2,013
Excess gas costs	10 to 20 years	1,267	1,353
Special rental appliance expenses	$13^1/_3$ years	988	991
Rate hearing expense	5 years	879	380
Extraordinary plant losses	10 years	763	
Computer conversion costs	5 to 7 years	588	616
Preliminary engineering and other projects	Expensed, amortized, or capitalized on completion	1,176	263
		14,925	15,054
Oil and gas exploration and production			
Long-term debt issue expense	Amortized over term of applicable issue	208	231
Other		76	66
		284	297
		$15,209	$15,351

6. Long-term debt (in thousands of dollars)

	Due Within One Year	1970	1969
Northern and Central Gas Corporation Limited			
$5^1/_2$%-$8^1/_2$% First mortgage bonds, 1972-1989	$1,600	$ 99,391	[illegible]
6% Notes and subordinated notes, 1975-1987	140	8,094	[illegible]
$5^3/_4$%-$9^1/_2$% Debentures, 1982-1991	1,389	58,911	40,234
	3,129	166,396	124,251
Greater Winnipeg Gas Company			
$5^3/_4$%-6% First mortgage bonds, 1978-1984	575	19,675	20,250
$5^1/_2$%-6% Debentures, 1979-1980	200	3,225	3,425
	775	22,900	23,675
Gaz Métropolitain, inc.			
$5^1/_2$%-7% First mortgage bonds, 1980-1990	1,652	35,198	36,968
6% General mortgage bonds, 1988-1989	275	11,585	11,935
$5^3/_4$% Debentures, 1985	500	17,500	18,000
	2,427	64,283	66,903
CIGOL and subsidiaries			
$5^7/_8$%-$6^1/_2$% First mortgage bonds, 1973-1983	1,007	12,816	13,814
$6^1/_4$% Debentures, 1976	80	380	461
Notes and purchase agreements	168	2,053	211
	1,255	15,249	14,486
Other		324	513
	$7,586	269,152	229,828
Deduct			
Long-term debt held for sinking fund purposes		233	
Current maturities on long-term debt		7,353	7,688
		7,586	7,688
		$261,566	$222,140

The above figures include premiums on securities issued in U.S. funds converted to Canadian funds at their respective dates of issue. Long-term debt maturities and sinking fund requirements for each of the four years, subsequent to 1971, are as follows:
1972 — $10,711,000; 1973 — $10,859,000; 1974 — $10,791,000; 1975 — $10,994,000.

7. Minority interests in subsidiaries (in thousands of dollars)

	1970			1969
	Preference shares	Common share equity	Total	Total
Gas utilities				
Greater Winnipeg Gas Company		$ 84	$ 84	$ 128
Gaz Métropolitain, inc.	$15,306	6,272	21,578	22,631
Oil and gas exploration and production				
CIGOL and subsidiaries	2,281	26,910	29,191	26,022
	$17,587	$33,266	$50,853	$48,781

8. Capital stock

Changes in the Company's issued capital during 1970 were as follows (in thousands of dollars):

	Common Shares		First preference shares				Second preference shares			
			First series		Second series		Series A		Series B	
	Number	Amount	Number	Par value	Number	Par value	Number	Par value	Number	Par value
January 1, 1970	11,692,195	$56,177	147,050	$7,352	40,292	$2,015	259,200	$6,480	1,317,550	$32,939
Issued for cash										
U.S. Issue	1,325,000	16,875								
Employees' share purchase plan .	705	11								
Incentive stock option plan	3,346									
Converted	36,160	565					(22,600)	(565)		
Redeemed			(3,050)	(152)	(904)	(46)	(8,525)	(213)	(5,575)	(140)
Dec. 31, 1970	13,057,406	$73,628	144,000	$7,200	39,388	$1,969	228,075	$5,702	1,311,975	$32,799

The first preference shares, first and second series, are currently redeemable at $52.00 and $50.75 per share, respectively, and do not presently have voting rights. The second preference shares, series A (redeemable at $27.50 per share), have voting rights and are convertible into 364,920 common shares to December 31, 1971. The second preference shares, series B (redeemable at $26.50 per share after 1975), have voting rights and are convertible into 2,361,555 common shares to August 15, 1977.

Unissued common shares are reserved as follows:

25,435	under the employees' share purchase plan, of which 2,661 shares are being subscribed for at prices ranging from $9.40 to $15.79 per share,
2,304	for the exercise of warrants at prices increasing from $9.75 to $15.00 per share and expiring in 1978,
799,350	for the exercise of warrants at $14.00 per share and expiring in 1977,
449,502	for the incentive stock option plan, of which options on 363,720 shares were outstanding at December 31, 1970, exercisable at prices from $11.875 to $16.50 and expiring to 1975. During 1970, options on 17,000 shares were granted, options on 17,200 shares were exercised and options on 5,300 shares expired.
1,276,591	

9. Retained earnings

The indentures and agreements relating to the Company's long-term debt obligations contain covenants limiting the payment of dividends.

10. Subsequent event and 1971 capital program

On January 15, 1971, the Company sold $50,000,000 principal amount $9^5/_8$% Senior Debentures due 1991. The proceeds were used to reduce bank loans (partially secured) and to retire commercial paper liabilities outstanding at December 31, 1970, and will be used to provide, in part, funds for the companies' 1971 capital expenditure programs, estimated to be $35,000,000 (including CIGOL's subscription requirement of $4,700,000 for Elf shares). It is anticipated that the remaining funds required for the 1971 capital programs will be available from operating revenues and bank lines of credit.

11. Statutory information

The remuneration of directors and senior officers of the Company, paid by the Company and its subsidiaries, aggregated $775,000 in 1970 and $742,000 in 1969.

TEN YEAR STATISTICAL COMPARISON

INCOME (in thousands of dollars)	1970	1969	1968
Revenues			
Gas utilities	$ 136,533	121,919	110,970
Oil and gas exploration and production	32,584	33,390	23,559
Other	3,530	3,709	2,102
	172,647	159,018	136,631
Costs and expenses			
Gas purchases	84,142	75,451	65,771
Operations and maintenance	27,133	25,416	22,628
Depreciation and depletion	15,450	15,952	11,216
Taxes, other than income	5,076	4,761	3,914
Interest	21,674	18,420	14,856
Income taxes	746	1,913	1,025
	154,221	141,913	119,410
Income before minority interests	18,426	17,105	17,221
Minority interests	4,308	4,830	3,143
CONSOLIDATED NET INCOME	$ 14,118	12,275	14,078
EARNINGS AND DIVIDENDS (Note 2)			
Dividends on preference shares	$ 2,716,000	2,779,000	2,816,000
Earnings applicable to common shares	$ 11,402,000	9,496,000	11,262,000
Basic earnings per common share	$ .88	.79	.96
Cash dividends paid on common shares	$ 7,621,000	6,684,000	5,435,000
Cash dividend per common share	$ .60	.575	.475

1967	1966	1965	1964	1963	1962	1961
103,065	57,785	52,180	24,413	21,610	18,840	15,837
21,268	19,528	—	—	—	—	—
1,527	846	603	97	113	178	221
125,860	78,159	52,783	24,510	21,723	19,018	16,058
61,222	37,807	29,930	16,028	14,024	12,556	10,635
22,846	12,981	6,735	2,704	2,677	2,164	1,864
10,399	6,505	2,880	1,091	946	713	430
3,295	1,337	1,180	341	278	259	230
12,236	6,184	4,542	2,298	2,214	1,822	1,605
1,403	1,399	1,089	9	8	8	8
111,401	66,213	46,356	22,471	20,147	17,522	14,772
14,459	11,946	6,427	2,039	1,576	1,496	1,286
3,370	3,563	3,074	16	15	19	43
11,089	8,383	3,353	2,023	1,561	1,477	1,243
1,238,000	760,000	191,000	114,000	120,000	120,000	120,000
9,851,000	7,623,000	3,162,000	1,909,000	1,441,000	1,357,000	1,123,000
.85	.89	.89	.62	.51	.49	.41
4,431,000	3,021,000	989,000	822,000	698,000	346,000	—
.39	.3375	.30	.275	.25	.125	—

Notes

(1) Principal subsidiaries acquired during the period were:

Lakeland Natural Gas Limited	1965
Greater Winnipeg Gas Company	1965
Canadian Industrial Gas & Oil Ltd.	1966
Gaz Métropolitain, inc.	1967
Trans-Prairie Pipelines, Ltd. (subsidiary of CIGOL)	1969

(2) Restated to give effect to a 2 for 1 split of common shares in 1966.

Five year statistical information of individual companies is available upon request.

TEN YEAR STATISTICAL COMPARISON

SYSTEM DATA — GAS UTILITIES		1970	1969	1968
Miles of pipe at year-end — distribution and transmission		**4,764**	4,696	4,445
Expenditures for plant additions (000's)	$	**17,189**	[illegible]	[illegible]
Active utility customers at year-end				
Industrial		**2,064**	1,993	1,977
Commercial		**25,900**	[illegible]	[illegible]
Residential		**374,069**	[illegible]	[illegible]
Total		**402,033**	401,431	392,915
Gas sales — MCF				
Industrial, firm		**62,334,342**	54,727,140	43,619,254
Industrial, interruptible		**50,865,461***	45,247,563	42,028,400
Commercial		**29,117,926**	[illegible]	[illegible]
Residential		**43,777,970**	40,600,054	39,164,172
Resale		—	—	—
Total		**186,095,699**	167,436,924	148,462,652
Gas sales and other operating revenues (000's)				
Industrial, firm	$	**33,464**	28,836	22,739
Industrial, interruptible		**19,522***	16,634	15,242
Commercial		**23,641**	21,778	19,903
Residential		**53,289**	49,803	49,411
Resale		—	—	—
Other operating revenues		**6,617**	4,868	3,675
Total	$	**136,533**	121,919	110,970

1967	1966	1965	1964	1963	1962	1961
4,068	2,618	2,388	1,001	968	931	749
32,364	19,947	11,815	3,929	4,243	7,977	4,912
1,916	423	402	106	110	96	92
23,651	12,853	11,998	4,221	3,860	3,277	2,755
360,279	149,025	136,567	48,607	44,651	39,052	29,539
385,846	162,301	148,967	52,934	48,621	42,425	32,386
38,757,233	24,861,309	20,484,723	13,462,878	11,584,714	10,177,617	9,557,569
33,664,700	25,455,022	25,290,613	17,229,234	16,507,127	16,584,077	14,713,547
22,065,699	15,766,111	13,831,354	4,728,448	4,004,298	3,344,885	2,589,406
37,487,924	22,514,942	20,486,351	6,031,029	5,261,790	4,225,021	3,101,622
8,029,587	—	—	—	—	—	—
140,005,143	88,597,384	80,093,041	41,451,589	37,357,929	34,331,600	29,962,144
20,238	11,767	9,848	6,291	5,424	4,681	4,472
12,298	9,081	9,093	6,325	6,048	5,997	5,274
18,417	11,798	10,463	3,592	3,176	2,660	2,125
45,583	23,469	21,407	7,755	6,656	5,372	3,912
3,586	—	—	—	—	—	—
2,943	1,670	1,369	450	306	130	54
103,065	57,785	52,180	24,413	21,610	18,840	15,837

*includes sales of liquefied natural gas

NORTHERN AND CENTRAL GAS CORPORATION LIMITED

4600 TORONTO-DOMINION CENTRE, TORONTO 1, ONTARIO

OPERATING COMPANIES:

Alberta

Canadian Industrial Gas & Oil Ltd.
640 Eighth Avenue, S.W. Calgary 2

Manitoba

Greater Winnipeg Gas Company
265 Notre Dame Avenue, Winnipeg 2

Ontario

Ontario Division, Northern and Central Gas Corporation Limited
150 Consumers Road, Willowdale

Champion Pipe Line Corporation Limited
4600 Toronto-Dominion Centre, Toronto 1

Quebec

Gaz du Québec, inc.
1717 du Havre St., Montreal 134

Gaz Métropolitain, inc.
1717 du Havre St., Montreal 134

Le Gaz Provincial du Nord de Québec Ltée
9 est rue Perreault, Rouyn

TRANSFER AGENTS:

First Preference Shares
Montreal Trust Company in Toronto, Montreal, Winnipeg, Calgary and Vancouver

Second Preference Shares
National Trust Company, Limited in Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares
National Trust Company, Limited in Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver.
Chemical Bank in New York

REGISTRARS:

First Preference Shares
Montreal Trust Company in Toronto, Montreal, Winnipeg, Calgary and Vancouver

Second Preference Shares
National Trust Company, Limited in Toronto, Montreal, Winnipeg, Calgary and Vancouver

Common Shares
Montreal Trust Company in Toronto, Montreal, Winnipeg, Regina, Calgary and Vancouver
Morgan Guaranty Trust Company of New York in New York

Common Shares Listed on Toronto, Montreal, Winnipeg, Vancouver and New York Stock Exchanges

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Presented on this back cover fold-out are graphic summaries of the Northern and Central group's financial results, share ownership make-up and geographic spread of facilities and operations. Maps depict the Manitoba, Ontario and Quebec service regions, the Arctic exploration areas and some of the Alberta, Saskatchewan and British Columbia producing and exploration interests of Canadian Industrial Gas & Oil.

NORTHERN AND CENTRAL GAS CORPORATION
4600 Toronto-Dominion Centre, Toronto 1, Canada
1970